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2 July 2016

Small Business Administration (SBA)
Notice of Proposed Amendments to SBIR and STTR Policy Directives
RIN 3245-AG64

Dear Small Business Administration,

Please consider the following comments regarding the proposed changes to the SBIR and STTR Policy Directives. Our comments are directly influenced by our experiences with the SBIR/STTR Program and SBIR/STTR Data Rights. In the following, when used alone 'SBIR' refers to *both* the STTR and SBIR programs, and 'STTR' refers only to the STTR program.

## Section 1: Proposal to Combine the SBIR and STTR Policy Directives

1. Toyon has no objection to combining the two policy directives.
2. We recommend that the combined document should first include all common aspects, then chapters or appendices that are specific to each program, thereby making it easy to distinguish the specific requirements of each program.

## Section 3: Proposal to Include Computer Software in the Definition of SBIR/STTR Data

1. Toyon supports clarifying the definition of SBIR Data to include Computer Software.
2. As currently implemented by the FAR and DFARS, Computer Software is protected under SBIR Data Rights.
   a. DFARS 252.227-7018(b)(4) states that "the Government shall have SBIR data rights in all technical data or computer software generated under this contract."
   b. FAR 52.227-20 also includes Computer Software as a component of SBIR Data.
      i. 52.227-20(a) defines 'data' to include "technical data and computer software."
      ii. 52.227-20(a) defines 'SBIR data' as "data first produced by Contractor" in the performance of a SBIR contract.
3. As long as the SBIR Computer Software Rights are provided to the Government recipient at the same time, Toyon **opposes** requiring the Government to notify an Awardee when Computer Software is distributed within the Government.
   a. Neither the current SBIR Policy Directive nor the proposed Directive requires that the Government notify the Awardee when SBIR Technical Data is distributed within the Government.
      i. Moreover, neither the FAR nor DFARS, as currently implemented, requires such a notification for SBIR Computer Software or SBIR Technical Data.
   b. The SBA has not put forth any justification as to why Technical Data and Computer Software should be treated differently under the protective umbrella of SBIR Data Rights.
   c. Such a notification requirement will cause an unnecessary and counterproductive burden on the Government, is counter to Congress' intent and public policy, and will result in further resistance to awarding Phase III SBIR contracts.

## Section 3: Proposal to Include Prototypes in the Definition of SBIR/STTR Data

1. Toyon is highly supportive of adding Prototype under the definition of SBIR Data.
2. The inclusion of Prototype will close a gap that has long concerned Toyon. For example, our designs are often readily apparent by examining a prototype. While Toyon always includes the prototype design details in our Final Reports, which are protected under SBIR Data Rights, a competitor could easily reverse engineer a design if allowed to examine a prototype.
3. However, it is not always possible to properly 'mark' a prototype with the entire SBIR Data Rights legend, if at all.
    a. The Directive should permit shorthand versions of the legend on prototype hardware. For example, the marking "SBIR Data" or "SBIR Prototype" should provide sufficient notice of rights and place the burden on the Government to determine the expiration date by contacting the small business concern (SBC).
    b. In some cases there is no room on the prototype for any markings. In that case, SBIR Data Rights should be preserved if:
        i. Pictures of the prototype are included in properly marked reports, or
        ii. The prototype is delivered with documentation that includes the proper markings.

## Section 3: Proposal to Clarify Government Use of SBIR Data during Protection Period

1. Toyon agrees with the SBA that the Government's rights during the protection period need further clarification for the following reasons:
    a. The current SBIR Policy Directive is not internally consistent; and current FAR and DFAR clauses contradict certain sections of the SBIR Policy Directive.
    b. Under DFARS 252.227-7018(a), the definition of 'SBIR data rights' includes the phrase 'government purpose' and the definition of 'government purpose' is in conflict with the Policy Directive regarding disclosure of SBIR Data during a competitive procurement.
    c. FAR 52.227-20 does not define 'government purpose' or 'use' so it is unclear whether the Government is permitted to modify SBIR Data for Government purposes during the protection period.
2. However, Toyon **opposes** restricting the Government's SBIR Data Rights during the protection period to Limited Rights in Technical Data and Restricted Rights in Computer Software because:
    a. Under the current FAR and DFARS, the Government's SBIR Data Rights during the protection period are less restrictive than Limited/Restricted Rights.
    b. Furthermore, under the current DFARS, the Government's SBIR Data Rights are more restrictive than Government Purpose Rights.
        i. The FAR itself does not define Government Purpose Rights or 'government purpose.'
3. There is a conflict between Section 8 and Appendix I of the current SBIR Policy Directive as related to the 'use' of SBIR Data by the Government during the protection period.
    a. Section 8 of the current SBIR Policy Directive states that:
        i. Each agency must refrain from disclosing SBIR Data outside the Government, and must protect the SBIR Data from disclosure and non-governmental use; and
        ii. The "Government retains a royalty-free license for Government use of any technical data delivered under an SBIR award, whether patented or not."
    b. Hence, Section 8 permits the Government to 'use' SBIR Data during the protection period for "Government use" but not "non-governmental use," and does not restrict it from disclosing SBIR Data within the Government.
        i. The Directive never defines the term 'use', so it is unclear if 'use' includes modification.
    c. In sharp contrast, Appendix I, Section 5 'Considerations', paragraph (d)(iii), of the Directive states that the "Government may not use, modify, reproduce, release, perform, display, or disclose technical data or computer software marked with this legend" during the protection period. Hence, Appendix I should be changed to be consistent with Section 8.

4. While FAR 52.227-20 and DFARS 252.227-7018 are consistent with Section 8 of the Policy Directive, they contradict Appendix I:
   a. DFARS 252.227-7018(a)(18) defines 'SBIR data rights' to "mean a royalty-free license for the Government, including its support service contractors, to use, modify, reproduce, release, perform, display, or disclose *technical data* or *computer software* generated and delivered under this contract for any United States *government purpose*."
   b. FAR 52.227-20 states that the "Government will *use* these data for *Government purposes* only, and they shall not be disclosed outside the Government (including disclosure for procurement purposes)" during the period of protection.
      i. FAR 52.227-20 does not expressly forbid modification of SBIR Data for Government purposes as it does allow the 'use' of SBIR Data for Government purposes.
      ii. 'Use' is defined by Merriam-Webster as "the act or practice of employing something" and as "a method or manner of employing or applying something." Hence, modifying SBIR Data can be reasonably interpreted as 'employing' or 'applying' the data.
5. Note that allowable Government use under both FAR and DFARS in relation to SBIR Computer Software is much greater than allowed under Restricted Rights in Computer Software.
6. The phrase "government purpose" in DFARS 252.227-7018(a)(18) seems to imply that SBIR Data may be used in a competitive procurement, which directly conflicts with the SBIR Policy Directive.
   a. 'Government purpose' is defined in 252.227-7018(a)(14) as "any activity in which the United States Government is a party, including cooperative agreements with international or multi-national defense organizations or sales or transfers by the United States Government to foreign governments or international organizations. Government purposes include competitive procurement, but do not include the rights to use, modify, reproduce, release, perform, display, or disclose technical data or computer software for commercial purposes or authorize others to do so."
   b. The Government purpose of allowing a 'competitive procurement' is in direct conflict with the SBIR Policy Directive, which forbids the use of SBIR Data to "produce future technical procurement specifications."
   c. On the other hand, DFARS 252.227-7018(b)(4)(ii) restricts the Government's ability to release or disclose SBIR Data to "any person" outside the Government, which would presumably include a competitive procurement.
   d. Hence, these terms and rights need further clarification.
7. As noted above, providing the Government with only Limited Rights in Technical Data and Restricted Rights in SBIR Computer Software during the protection period, as suggested by the proposed changes, will result in a reduction in the Government's rights as currently implemented under the FAR and DFARS.
   a. The proposed change omits the phrase "royalty-free license."
   b. The proposed change also severely restricts the Government's use of SBIR Computer Software under the definitions of Restricted Rights in DFARS 252.227-7018(a)(17) and FAR 52.227-14, which:
      i. Limit the Government's right to use of the computer software to "one terminal or central processing unit" at a time;
      ii. Restrict the transfer of the program to another Government agency; and
      iii. Severely limit the ability of the Government to modify the computer software.
   c. Such restrictions to SBIR Data will provide a disincentive for our customers to make Phase III awards.
8. Toyon strongly recommends that the SBIR Data Rights (including Computer Software) accorded to the Government during the protection period be equivalent to those provided in DFARS 252.227-7018(a)(18), and should "mean a royalty-free license for the Government, including its support service contractors, *to use, modify, reproduce, release, perform, display, or disclose technical data or computer software generated and delivered under this contract* for any United

States government purpose," with the exception of disclosing SBIR Data (including Computer Software) to outside the Government (except reviewers) and especially to competitors of the SBC, or from using the information to produce future technical procurement specifications that could harm the SBC that discovered and developed the innovation.

## Section 3: Proposal for Unlimited Rights in SBIR Data after End of Protection Period

1. Toyon has always understood that SBIR Data Rights revert to Unlimited Rights at the end of the protection period and supports the clarification of this issue.
2. Under DFARS 252.227-7018(b)(1)(vi) the Government receives Unlimited Rights to SBIR Data "upon expiration of the SBIR data rights period."
    a. Under the DFARS 252.227-7013 and -7014, Government Purpose Rights (GPR) also default to Unlimited Rights within five years after commencement of the contract.
3. FAR 52.227-20 implies that upon expiration of SBIR Data Rights, the Government obtains Unlimited Rights, or is at least free to disclose the data without penalty:
    a. After "the protection period, the Government has a paid-up license to use, and to authorize others to use on its behalf, these data for Government purposes, but is relieved of all disclosure prohibitions and assumes no liability for unauthorized use of these data by third parties."
    b. Furthermore, once SBIR Data Rights expire, FAR 52.227-20(b)(1) controls, and under Section (iv) the Government obtains Unlimited Rights to all data first produced on the contract that *does not fall under an exception*.
        i. The SBIR Data Rights exception no longer applies at the end of the protection period.
4. Allowing SBIR Data Rights to revert to Unlimited Rights after the end of the protection period is consistent with all non-SBIR Government contracts and with public policy considerations.
5. While the Government obtains Unlimited Rights to SBIR Data that is no longer under protection of the SBIR Policy Directive, Unlimited Rights does **not** imply Public Release should be allowed.
    a. Classification, security interests, and public policy need to be considered before allowing the release of SBIR Data outside of the Government, or even to other Government contractors.
    b. For example, there are Phase I and/or Phase II SBIR programs with classified follow-on contracts that a SBC is not allowed to acknowledge.
    c. Hence, the public disclosure of certain SBIR Data may be harmful to national security.
6. Toyon recommends that normal procedures, including the Freedom of Information Act (FOIA), be followed before changing the distribution statement associated with SBIR Data.

## Section 3: Proposal to Change the Protection Period to 12 Years without a Roll-Over Provision Extending the Protection Period

1. Toyon strongly **opposes** changes to the protection period, and to the removal of the roll-over provision that allows an extension to the SBIR Data Rights protection period.
2. **Moreover, Toyon strongly opposes retroactively changing the rules, which will create significant upheaval for our existing contracts and will likely result in monetary damages.**
    a. The proposed rule change fails to address the implications to SBIR Data Rights obtained under the existing rules.
        i. What will happen to prior SBIR Data Rights obtained under the old rules?
        ii. If the changes are not retroactive, how will the Government manage the two classes of protections?
    b. Toyon relies heavily on the protections provided by the current SBIR Policy Directive when pursuing Phase III contracts and we permit certain relaxations in our rights accordingly.
        i. Therefore, any retroactive change would have devastating effects on Toyon, and presumably other SBCs.

3. The proposed protection period of 12 years is less than that obtained with a typical Phase I-II-III contract cycle under the existing SBIR Policy Directive and is also less than the term of patent protection, which is 20 years from the application date.
    a. Including inevitable gaps between contracts, the protection period under the existing rules with just one follow-on Phase III contract is typically between 15 and 19 years.
4. If the SBC fails to obtain a Phase II or Phase III contract, the existing (short) protection period of four (4) years ensures that the Government quickly obtains Unlimited Rights to the SBIR Data, similar to other non-SBIR Government contracts, which seems fair.
5. The combination of a short protection period with a roll-over provision is consistent with Congress' intent to reward a SBC for commercializing its technology (roll-over of the protection period), and penalize it for not doing so (short protection period).
6. If the rationale for the rule change is that it is difficult to determine the protection period under the current rules, there is a very simple answer to that dilemma:
    a. Upon a specific request by the Government, the SBC should be required to provide evidence of follow-on Phase II and III contracts and the current expiration date of the data rights.
    b. The Government should have the burden to ask, and the SBC should have the burden to provide the evidence once asked.
7. If the rationale for the rule change is that SBIR Data Rights may be protected for an indefinite period, then a maximum cumulative protection period of 20 years could be specified while still retaining the short four-year protection period without follow-on contracts.
    a. This ensures that the Government obtains Unlimited Rights within a predictable period of time regardless of whether the SBC successfully commercializes the technology.
    b. It also provides the SBC with an incentive to keep attempting to commercialize the technology, *as intended by Congress*.
    c. Furthermore, it is in the best interests of the Government to retain the shorter four-year protection period for technology where no Phase II or III activity occurs.
8. The current SBIR.gov commercialization database provides the Phase III commercialization dollars for any Phase II contract and is required to be kept current by the SBC. We recommend extending this database so that Phase I contracts that went directly to Phase III can be included, and so that SBCs can update the current protection period when updating the commercialization data. In doing so, please note that:
    a. Each Phase I may have multiple Phase II and/or Phase III awards;
    b. Each Phase II may have multiple Phase III awards; and
    c. Each Phase III may derive from, extend, or logically conclude multiple Phase I and/or Phase II contracts.
9. The proposed fixed 12-year protection period fails to address the issues that arise due to overlapping protection periods of follow-on contracts.
    a. Once the protection period of a Phase I contract ends, the SBIR Data for that contract can be released before the end of the protection period of the follow-on Phase II or III contract.
        i. Same for a Phase II contract whose protection period ends before the Phase III contract.
    b. This will provide competitors an advantage and allow them to rapidly develop the same technology with less effort before the end of the protection period for the follow-on contract.
10. Elimination of the roll-over provision will make SBIR Data worth much less to another company that would have otherwise acquired the SBIR Data or the SBC that owns the data.
    a. This is contrary to the intent of Congress, which intended for small companies to benefit from the technology they developed.
    b. It is also contrary to 15 U.S.C. 638(r)(4), which states that, to the greatest extent practicable, agencies and prime contractors issue Phase III awards to the SBC that developed the SBIR technology.
11. Elimination of the roll-over provision will provide an incentive to the Government and prime contractors to wait-out the protection period before acquiring the SBIR technology from a company other than the SBC that developed it.

a. This is contrary to the intent of Congress, which requires under 15 U.S.C. 638(j)(2)(C) and 15 U.S.C. 638(r)(4), that participating agencies ensure, to the greatest extent practicable, that an agency enters into a follow-on non-SBIR funding agreement with the SBC that developed the technology.

### Section 4: Proposal to Clarify Preference for SBC that Developed SBIR Technology

1. Toyon fully supports the proposed language that requires agencies to provide a preference, to the greatest extent practicable, to the SBC that developed the SBIR technology.

### Section 4: Proposal for Sole-Source Justification Based on Prior SBIR Funding

1. Toyon fully supports the proposed language permitting agencies to state that the award is derived from, extends, or completes efforts made under prior SBIR/STTR funding.

### Section 4: Proposal for Notice of Intent to Appeal by the SBA

1. Toyon supports clarifying procedures for appealing an Agency's intent to make an award to an entity other than the SBIR Awardee that developed the technology.
2. Toyon recommends that the SBIR Awardee be notified that the Agency has provided notice of its intent to make an award to another entity, and that the SBIR Awardee be given an opportunity to provide information counter to the Agency's determination on why follow-on funding with the SBIR Awardee is not practicable.
3. The SBA should be permitted to review the protest from the SBIR Awardee prior to determining whether to file a notice of intent to appeal with the funding agreement officer.

### Section 6: Proposal to Eliminate STTR Requirement for Single Research Institution (RI)

1. Toyon supports the proposed language clarifying that a SBC can partner with more than one research institution under the STTR program.
2. However, if possible under the statute, the STTR program should allow that at least 30% of the work is performed by a <u>combination</u> of one or more research institutions, which would further collaboration between the SBC and RIs.
3. In support of the above, Toyon would like to point out some practical issues that arise concerning the requirement that at least 30% of the work must be completed by a <u>single</u> research institution:
   a. The SBC often works with more than one researcher at a research institution. For example a professor and a grad student or post-doctoral researcher.
   b. Practical issues arise when the grad student or post-doc begins work as a professor at another RI, either prior to the Phase II or during the Phase II program.
   c. Ideally, the SBC would like to keep the Phase I team together, but is unable to do so because it is forced to subcontract at least 30% of the work to a single RI.
   d. This causes discontinuity in the program as new grad students or post-docs must fill in for the original researcher that left the RI.

### Section 6: Eligibility Requirements: Commercialization Data Submission

1. A SBC is currently required to submit the same commercialization data to multiple agencies and websites, including SBIR.gov, DOD, and NASA, among others.
   a. Sometimes this information is provided as part of a Phase I or Phase II proposal.
2. Each agency/website requires a different set of data.
3. This is not practical or feasible for a SBC.
4. Commercialization data should be entered at one centralized location, and no other.

## Section 6: Eligibility Requirements: Commercialization of Phase I Contracts

1. Current commercialization databases ask only for commercialization related to Phase II contracts.
2. There is no way to include commercialization for Phase I contracts that went directly to Phase III contracts without any intermediate Phase II contract.
3. SBIR.gov should be required to allow commercialization entries for Phase I contracts, and such commercialization should be accounted for when determining eligibility requirements for a SBC.

## Section 8: Proposal to Remove the Roll-Over Provision Extending the Protection Period

1. See comments for Section 3.
2. Toyon strongly **opposes** the removal of the provision extending the SBIR Data protection period upon award of a follow-on Phase II or Phase III contract.
3. The SBA cites "administrative challenges" to determining the expiration of the protection period. Yet, there is no administrative challenge. The solution is simple:
   a. The Government should be required to ask for, and the SBC should be required to provide, documentation regarding follow-on contracts and the current expiration period for specific SBIR Data.
   b. Alternatively, the SBC could be required to certify the expiration period for each SBIR contract (Phase I and Phase II) at SBIR.gov when entering commercialization data.
   c. Either way, the administrative burden on the Government is minimal.
4. Removal of the roll-over provision with a 12-year protection period effectively reduces protections that are currently provided to the SBC.
   a. Current protection for technology that is commercialized is effectively longer than 12 years.
5. Removal of the roll-over provision, even with a longer, 12-year protection period per contract, diminishes the value of SBIR Data, thereby lowering incentives for larger companies to purchase the SBIR Data or acquire the company that owns the data.
6. Removal of the roll-over provision reduces the incentive for the Government to award a follow-on Phase III contract to the SBC that developed the SBIR technology.
   a. This is counter to Congress' intent and counter to the federal statute authorizing the SBIR program.
7. A longer, 12-year protection period, without a roll-over provision, will result in delaying the time at which the Government receives Unlimited Rights for SBIR Data that is never commercialized.
   a. The Government currently receives Unlimited Rights within four or five years to SBIR Data generated under Phase I contracts that never transition to Phase II or Phase III contracts.
   b. The same is true for SBIR Data generated under Phase II contracts that never transition to a Phase III contract.
   c. Hence, this proposed provision rewards companies that fail to commercialize their technology while penalizing those that are successful.
8. The recent Supreme Court ruling in *Encino Motorcars, LLC v. Navarro et al. (2016)*, requires an agency to provide adequate reasons for its decisions during administrative rulemaking. Further, when changing existing policies an agency must be cognizant that longstanding policies may have "engendered serious *reliance* interests that must be taken into account."
   a. Currently the SBIR Data of hundreds if not thousands of small companies relies on the protections given to it by the existing SBIR Policy Directive.
   b. These protections increase the value of SBIR Data and the value of the SBC that owns the data.
   c. The proposed policy change of eliminating the roll-over provision that extends the protection period of SBIR Data for each follow-on Phase II or Phase III contract will diminish the value of the SBIR Data and, therefore, the value of the small business concern.
   d. Fewer small businesses will be acquired by other businesses for their SBIR Data.

e. Fewer prime contractors will acquire SBIR Data from the SBC that developed the technology.
f. Fewer Phase III contracts will be awarded because agencies will be permitted to award contracts to companies that did not develop the SBIR technology by simply waiting for the end of the protection period.
g. Therefore, the loss of value and the loss of protections currently provided by the existing SBIR Policy Directive are not outweighed by the administrative burden of determining the current expiration date of SBIR Data.
    i. During this time of cloud-computing and information technology, the use of "administrative burden" as an excuse to reduce protections on SBIR Data is highly questionable.
    ii. Further, there are alternative solutions, as suggested above, that are less burdensome than changing long-standing policy upon which SBCs have developed a reliance interest.

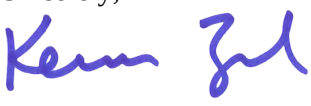
## Section 8: Proposed Change to Limit the Time to Correct Markings to Six Months

1. Toyon supports limiting the timeframe during which a SBC is allowed to correct or add markings to six months after delivery.
2. Marking of prototypes, however, poses problems, as some prototypes cannot be marked at all or have insufficient space to include complete markings.
3. The Policy Directive should allow protections for prototypes so long as:
    a. The prototype was delivered with documentation containing the proper marking, or
    b. Pictures of the prototype are included in the properly marked technical data delivered with the contract.

## Section 9: Responsibilities of Agencies and Departments

1. Section (f) "Preventing Fraud, Waste and Abuse" of the Directive provides examples of SBC action relating to false representation (fraud), needless expenditure (waste), and misuse of funds or authority (abuse).
2. Toyon recommends the inclusion of examples of actions related to Agency personnel that result in fraud, waste and, particularly, abuse. Examples of such activity could include:
    a. Misuse of SBIR data (e.g. to produce future technical procurement specifications) or disclosure to competitors of the SBIR Awardee.
    b. Attempt or action by agency personnel to condition an SBIR award on the negotiation of lesser data rights or to exclude the appropriate data rights clause from the award.
    c. Failure of Agency personnel to report in writing to the SBA prior to making an award for work that derived from, extends, or completes efforts made under prior SBIR funding agreements to an entity other than the SBIR Awardee.

Sincerely,



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